

DEVELOPMENT FUND FOR IRAQ
CASH ACCOUNTABILITY REVIEW:
JOINT AREA SUPPORT GROUP-
CENTRAL/FALLUJA

SIGIR-06-012
APRIL 28, 2006

Report Documentation Page

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SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

April 28, 2006

MEMORANDUM FOR COMMANDER, JOINT AREA SUPPORT GROUP – CENTRAL

SUBJECT: Audit Report on Development Fund for Iraq Cash Accountability Review:
Joint Area Support Group-Central/Falluja (SIGIR-06-012)

We are providing this audit report for your information and use. We performed the audit in accordance with our statutory duties contained in Public Law 108-106, as amended, which requires that we provide for the independent and objective conduct of audits, as well as leadership and coordination of and recommendations on policies designed to promote economy, efficiency, and effectiveness in the administration of Iraq relief and reconstruction programs and operations and to prevent and detect waste, fraud, and abuse.

This report does not contain recommendations; therefore no written response to this report is required. We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Joseph T. McDermott at (703) 343-7926, or by email at joseph.mcdermott@iraq.centcom.mil; or Mr. Clifton Spruill at (703) 343-9275, or by email at clifton.spruill@iraq.centcom.mil. For the report distribution, see Appendix C.

A handwritten signature in black ink that reads "Stuart W. Bowen, Jr." followed by a period.

Stuart W. Bowen, Jr.
Inspector General

cc: Distribution

Special Inspector General for Iraq Reconstruction

SIGIR-06-012

April 28, 2006

Development Fund for Iraq Cash Accountability Review: Joint Area Support Group-Central/Falluja

Executive Summary

Introduction. This audit report is one of a series of reports addressing controls by U.S. government officials over cash in Iraq. This audit report discusses the accountability for the Development Fund for Iraq (DFI) cash controlled by the Joint Area Support Group - Central (JASG-C) Comptroller, who also serves as the DFI Account Manager.

The DFI fund was established to meet:

- the humanitarian needs of the Iraqi people
- the economic reconstruction and repair of Iraq's infrastructure
- the continued disarmament of Iraq
- the costs of Iraqi civilian administration
- other purposes benefiting the people of Iraq

This particular audit addressed DFI cash held by the Division Level Agent (DLA) in Falluja, Iraq. The DLAs are responsible for issuing cash payments to designated entities (individuals and/or businesses) and for clearing their accounts with the JASG-C Disbursing Officer. The JASG-C Disbursing Officer maintains an accounting ledger of cash accountability that included evidence of cash issued and receipts returned. Due to the availability of Electronic Funds Transfer, the DLA for Falluja, Iraq, no longer needs to maintain cash on site.

Objective. The overall audit objective was to provide assurance that DFI funds turned in by the Falluja DLA agreed with government records. We specifically looked at whether Department of Defense (DoD) policies and procedures for cash accountability and disposition were being complied with.

Results. We conducted an unannounced cash count on March 30, 2006, and as a result provided assurance that the \$7.9 million in cash and payment packets turned in by the Falluja DLA agreed with government records. The Falluja DLA was accountable for DFI cash assets and complied with the DoD requirements for the disposition of cash to the JASG-C Disbursing Officer. We found that the processes employed by the DLA and the JASG-C Disbursing Officer for completing, controlling, and maintaining accurate records for the cash (DFI/Falluja) and the clearing of cash account balances were acceptable.

Recommendations. We made no recommendations in this report.

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Introduction

Background

United Nations Security Council Resolution 1483, dated May 22, 2003, assigned responsibility for managing the Development Fund for Iraq (DFI) to the Coalition Provisional Authority (CPA). Resolution 1483 noted that DFI funds should be disbursed at the direction of the CPA, in consultation with the Iraqi interim administration. It also required that the DFI funds be used in a transparent manner to meet the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq's infrastructure, for the continued disarmament of Iraq, for the costs of Iraqi civilian administration, and for other purposes benefiting the people of Iraq. The DFI was the primary financial vehicle to channel revenue from ongoing Iraqi oil sales, unencumbered Oil for Food deposits, and repatriated Iraqi assets to the relief and reconstruction efforts for Iraq.

During the CPA administration of Iraq, the CPA Comptroller managed DFI funds. When the CPA was disestablished in June 2004, responsibility for administering DFI funds shifted to the U.S. Army's Joint Area Support Group-Central (JASG-C). The CPA Comptroller was realigned as the JASG-C Comptroller, and assumed responsibility for cash control of the DFI and continued to perform the same duties for that portion of the DFI still being administered by the U.S. government.

CPA Regulation Number 2, "Development Fund for Iraq," dated June 10, 2003, described the responsibilities for the administration, use, accounting, and auditing of the DFI. The regulation was intended to ensure that the DFI was managed in a transparent manner for and on behalf of the Iraqi people, consistent with Resolution 1483, and that all DFI disbursements would be for purposes benefiting the people of Iraq.

The United States used DFI cash funds to help fund the Commanders' Emergency Response Program and the Rapid Regional Response Program. The Commanders' Emergency Response Program enables U.S. military commanders in Iraq to respond to urgent humanitarian relief and reconstruction requirements of the local population by providing funds for repairs and condolence payments after combat operations; providing equipment such as electrical generators to support critical infrastructure, and large scale civic cleanup and construction activities to employ as many Iraqis as possible. The Rapid Regional Response Program was conceived as a civilian equivalent of the Commanders' Emergency Response Program fund intended to create local jobs, support local industries, and stimulate the economy.

Military regulations and guidance provide additional requirements for managing cash funds. Department of Defense Financial Management Regulation Volume 5 establishes disbursing policy principles, standards, responsibilities, procedures, practices, and liability for disbursing officers, certifying officers and accountable officials throughout the Department. The military also issued an instruction titled Guidance on the Use of the Development Fund for Iraq In Support of the Commanders' Emergency Response Program, dated August 2003. The guidance applied to all parties involved in receiving, disbursing, accounting for, securing, and reporting for the DFI. It designates the CPA Comptroller as the DFI Account Manager with the responsibilities of overall financial and program accountability for the use of DFI monies in the Commanders' Emergency Response Program. The CPA Comptroller's responsibilities included accounting and reconciling DFI monies that were used in the Commanders' Emergency Response Fund

and appointing Division Level Agents. The JASG-C Comptroller assumed the role of the DFI Account Manager when the CPA was disestablished.

The JASG-C Comptroller/DFI Account Manager's office is required to maintain an accounting ledger of cash accountability that included evidence of cash issued and receipts returned. The JASG-C Comptroller/DFI Account Manager's office advances cash to the appointed Division Level Agents, recording the transaction on the Department of Defense (DD) Form 1081, "Statement of Agent Officer's Account."

The Division Level Agents (DLAs) are responsible for receiving and disbursing DFI cash payments to designated entities (individuals and/or businesses) in support of the Commanders' Emergency Response Program and the Rapid Regional Response Program. The DLAs are required to maintain cash accountability and payment packets, and to reconcile and clear the disposition of cash advances with the JASG-C Disbursing Officer at least monthly.

Objective

The overall audit objective was to provide assurance that DFI funds turned in by the Falluja DLA agreed with government records. We specifically looked at whether DoD policies and procedures for cash accountability and disposition were being complied with.

For a discussion of the audit scope, methodology, and a summary of prior coverage, see Appendix A. For definitions of the acronyms used in this report, see Appendix B. For a list of the audit team members, see Appendix D.

Control of the Development Fund for Iraq

Cash Accountability and Disposition

This audit report discusses control of DFI cash controlled by the JASG-C Comptroller, who also serves as the DFI Account Manager. The JASG-C Comptroller/DFI Manager has designated physical accountability over the DFI cash funds to the Disbursing Officer. The Disbursing Officer is responsible for cash-on-hand held in the Palace vault (located at the U.S. Embassy Annex, Baghdad, Iraq), disbursing the funds, and for maintaining security for the funds. Also, the Disbursing Officer is responsible for the reconciliation of the funds held by the DLAs.

The DLAs are required to maintain cash accountability and payment packets, and to reconcile and clear the disposition of cash advances with the JASG-C Disbursing Officer at least monthly. Due to the availability of Electronic Funds Transfer, the DLA for Falluja, Iraq, no longer needed to maintain DFI cash on site, and therefore, this was the final reconciliation for this account.

Cash Accountability

We conducted an unannounced cash count of the DFI funds being turned in by the Falluja DLA to the JASG-C Disbursing Officer's vault at approximately 0800 hours on March 30, 2006. We were given access to the funds immediately and we were observed by the Disbursing Officer and the DLA during the entire cash count. A full cash count was conducted to ascertain completeness of the funds. The cash was segregated by dollar denomination and loose coins. The amount of cash turned in by the Falluja DLA is shown in the following table.

Table: Results of Cash Count of DFI Funds on March 30, 2006 (in U.S. Currency)

	Denomination	Quantity	Amount
Currency	Hundreds	66,672 Bills @\$100.00	\$6,667,200.00
	Fifties	11,101 Bills @ \$50.00	\$555,050.00
	Twenties	4 Bills @ \$20.00	\$80.00
	Tens	0 Bills @ \$10.00	\$0.00
	Fives	0 Bills @ \$5.00	\$0.00
	Ones	0 Bills @ \$1.00	\$0.00
Loose Coin			\$.09
TOTAL as of March 30, 2006			\$7,222,330.09

Source: SIGIR

The actual DFI cash on hand turned in by the Falluja DLA was \$7,222,330.09, which matched the accountability records maintained on the JASG-C Comptroller. The Disbursing Officer performed a cash count immediately after our cash count. The totals of each cash count were the same.

The JASG-C Comptroller's office follows the guidance from the DoD Financial Management Regulation (FMR) Volume 5 in regards to cash controls. A Department of Defense Form 1081, "Statement of Agent Officer's Account," is prepared to document cash withdrawals, deposits, and reconciliation of the DFI fund. Additionally, the JASG-C Comptroller's office maintains an Excel spreadsheet to track the DFI cash totals.

Cash Disposition: Payment Packets

The JASG-C Comptroller/DFI Account Manager has established policies and procedures for appointing the DLA. In accordance with these policies and procedures, via the appointment letter, the DLA is authorized to take custody and make disbursement of DFI Funds. The DLAs must provide, in their payment packets, the following documentation to the Disbursing Officer to reconcile their accounts. Specifically,

- the signed contract
- detailed invoices
- Material Inspection and Receiving Report/Certificate of Completion document

The Falluja DLA presented four payment packets to the JASG-C to reconcile with the cash turn in. Our review found that the payment packets contained the above documents and were accurate. In reconciling the account we added the amount of each payment packet to the cash. The amount of the four payment packets was \$697,418.31. This

amount added to the cash amount equaled \$7,919,748.40. The JASG-C Disbursing Officer reconciled the payment packets. The totals from the cash count and the payment packets were compared, and were the same.

The JASG-C Disbursing Officer reconciled the cash and payment packets turned in for the Falluja DLA's account against the DD Form 1081, reducing that account to zero. The JASG-C Disbursing Officer, using the Excel spreadsheet, increased the amount of cash returned to the vault by \$7,222,330.09.

Conclusion

We conducted an unannounced cash count on March 30, 2006, and as a result provided assurance that the \$7.9 million cash and payment packets turned in by the Falluja DLA agreed with U.S. government records. The JASG-C Disbursing Officer and the DLA were accountable for DFI cash assets on hand and complied with the DoD requirements for safeguarding cash. We found that the processes employed by the JASG-C Comptroller's Office for completing, controlling, and maintaining accurate records for the issuance of cash to DLAs and for clearing the Falluja DLA's cash account and payment packets balances were acceptable. The procedures the Falluja DLA employed to maintain control of and to turn in the DFI cash and payment packets were acceptable.

Recommendations

We made no recommendations in this report.

Appendix A. Scope and Methodology

To determine if the DFI cash held by the Falluja DLA agreed with government records, we conducted an unannounced cash count of the DFI funds at approximately 0800 hours on March 30, 2006 (Project No. 6015). We were given access to the funds immediately and we were observed by the Disbursing Officer and the Falluja DLA during the entire cash count. We verified, by actual count, the cash in the amount of \$7,222,330.09, which matches the accountability records maintained on the JASG-C Comptroller.

We reviewed the spreadsheets of reconciliation between the Division Level Agents and the JASG-C Comptroller. We reviewed receipts payment packets to determine if the amounts equaled the amounts on the Excel spreadsheet totals. We verified, by reviewing supporting documentation, the amount of the four payment packets was \$697,418.31.

We reviewed the DoD Federal Management Regulation Volume 5 as the criteria to determine if the JASG-C Comptroller's Office complied with applicable regulations.

We reviewed the Statement of Agent Officer's Account, DD Form 1081 to determine the adequacy of the JASG-C Comptroller and the DLA funds accountability.

We performed the audit work at the JASG-C Comptroller's Office and the Vault, located in the U.S. Embassy Annex, Baghdad, Iraq.

We conducted this audit from March 2006 through April 2006, with the actual cash count performed on March 30, 2006, in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We did not use computer-processed data to perform this audit.

Prior Coverage. We reviewed the following reports:

The Special Inspector General for Iraq Reconstruction report, "Control of Cash Provided to South-Central Iraq," (SIGIR 05-006, April 30, 2005). Reports issued by the Office of the Special Inspector General for Iraq Reconstruction can be accessed on its website <http://www.sigir.mil>.

Air Force Audit Agency report, "Nonappropriated Fund Cash Controls," (F2003-0003-FB4000, dated 30 December 2002). AFAA Reports can be accessed on its website <https://www.afaahq.af.mil>

Appendix B. Acronyms

CPA	Coalition Provisional Authority
DFI	Development Fund for Iraq
DLA	Division Level Agent
JASG-C	Joint Area Support Group – Central (Provisional)

Appendix C. Report Distribution

Department of State

Secretary of State

Senior Advisor to the Secretary and Coordinator for Iraq

U.S. Ambassador to Iraq

Director, Iraq Reconstruction Management Office

Mission Director-Iraq, U.S. Agency for International Development

Inspector General, Department of State

Department of Defense

Secretary of Defense

Deputy Secretary of Defense

Director, Defense Reconstruction Support Office

Under Secretary of Defense (Comptroller)/Chief Financial Officer

Deputy Chief Financial Officer

Deputy Comptroller (Program/Budget)

Inspector General, Department of Defense

Director, Defense Contract Audit Agency

Director, Defense Finance and Accounting Service

Director, Defense Contract Management Agency

Department of the Army

Assistant Secretary of the Army for Acquisition, Logistics, and Technology

Principal Deputy to the Assistant Secretary of the Army for Acquisition,

Logistics, and Technology

Deputy Assistant Secretary of the Army (Policy and Procurement)

Director, Project and Contracting Office

Commanding General, Joint Contracting Command-Iraq/Afghanistan

Assistant Secretary of the Army for Financial Management and Comptroller

Chief of Engineers and Commander, U.S. Army Corps of Engineers

Commanding General, Gulf Region Division

Auditor General of the Army

U.S. Central Command

Commanding General, Multi-National Force-Iraq

Commanding General, Multi-National Security Transition Command-Iraq

Commander, Joint Area Support Group-Central

Other Federal Government Organizations

Director, Office of Management and Budget

Comptroller General of the United States

Inspector General, Department of the Treasury

Inspector General, Department of Commerce

Inspector General, Department of Health and Human Services

Inspector General, U.S. Agency for International Development

President, Overseas Private Investment Corporation

President, U.S. Institute for Peace

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

U.S. Senate

Senate Committee on Appropriations

Subcommittee on Defense

Subcommittee on State, Foreign Operations and Related Programs

Senate Committee on Armed Services

Senate Committee on Foreign Relations

Subcommittee on International Operations and Terrorism

Subcommittee on Near Eastern and South Asian Affairs

Senate Committee on Homeland Security and Governmental Affairs

Subcommittee on Federal Financial Management, Government Information and International Security

Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia

U.S. House of Representatives

House Committee on Appropriations

Subcommittee on Defense

Subcommittee on Foreign Operations, Export Financing and Related Programs

Subcommittee on Science, State, Justice and Commerce and Related Agencies

House Committee on Armed Services

House Committee on Government Reform

Subcommittee on Management, Finance and Accountability

Subcommittee on National Security, Emerging Threats and International Relations

House Committee on International Relations

Subcommittee on Middle East and Central Asia

Appendix D. Audit Team Members

This report was prepared and the audit was conducted under the direction of Joseph T. McDermott, Assistant Inspector General for Audit, Office of the Special Inspector General for Iraq Reconstruction. The staff members who contributed to the report include:

W. Dan Haigler, Jr.

Ronald Rembold